METROPOLITAN WATER DISTRICT OF OREM

BASIC FINANCIAL STATEMENTS and Reports in Accordance with Government Auditing Standards and the State of Utah Legal Compliance Audit Guide

Years Ended June 30, 2006 and 2005

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Squire & Company, PC Certified Public Accountants and Business Consultants



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INDEPENDENT AUDITOR'S REPORT

Board of Directors Metropolitan Water District of Orem

We have audited the accompanying statements of net assets of Metropolitan Water District of Orem (the District) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of District management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Water District of Orem as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 2 through 4, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Again & Congan, PC

August 28, 2006

METROPOLITAN WATER DISTRICT OF OREM Management's Discussion and Analysis

As management of Metropolitan Water District of Orem (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,171,181 (net assets). Of this amount, \$1,482,780 (unrestricted net assets) may be used to meet the District's ongoing obligations to provide water to the City of Orem.

The District's total net assets increased during the most recent fiscal year by \$564,989. Most of this increase is attributable to impact fees received from new connections during the year.

Overview of the Financial Statements

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statements of Net Assets present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged).

The Statements of Cash Flows present the activities of the District on a cash-received and cash-paid basis. These statements show how cash was spent and reconcile the change in the cash accounts for the District from the prior year to the current year.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$8,171,181 at the close of the most recent fiscal year.

The tables on the following page summarize information presented in the financial statements:

METROPOLITAN WATER DISTRICT OF OREM Management's Discussion and Analysis

Metropolitan Water District of Orem's NET ASSETS

June 30, 2006, 2005, and 2004

	2006	2005	2004
Current assets	\$ 1,919,720	\$ 1,367,447	\$ 986,229
Capital assets, net	6,828,462	6,795,406	6,682,624
Total assets	8,748,182	8,162,853	7,668,853
Current liabilities	436,940	410,176	369,956
Long-term liabilities	140,061	146,485	161,123
Total liabilities	577,001	556,661	531,079
Invested in capital assets, net of related debt	6,688,401	6,648,921	6,521,501
Unrestricted net assets	1,482,780	957,271	616,273
Total net assets	\$ 8,171,181	\$ 7,606,192	\$ 7,137,774

Metropolitan Water District of Orem's CHANGE IN NET ASSETS

Years Ended June 30, 2006, 2005, and 2004

	2006	2005	2004
Operating revenues	\$ 1, 0 77,831	\$ 1,052,687	\$ 1,044,010
Operating expenses	1,576,210	1,324,514	1,238,525
Operating loss	(498,379)	(271,827)	(194,515)
Nonoperating revenue (expense)	1,063,368	740,245	726,355
Change in net assets	564,989	468,418	531,840
Net assets, beginning of year	7,606,192	7,137,774	6,605,934
Net assets, end of year	\$ 8,171,181	\$ 7,606,192	\$ 7,137,774
	· · · · · · · · · · · · · · · · · · ·		

At June 30, 2006, the largest portion of the District's net assets (\$6,688,401 or 82 percent) reflects its investment in capital assets (e.g., water stock), net of related debt. The District uses these capital assets to provide services to Orem City; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets (\$1,482,780 or 18 percent) may be used to meet the District's ongoing obligations.

METROPOLITAN WATER DISTRICT OF OREM Management's Discussion and Analysis

In comparing 2006 with 2005, the following items should be noted:

Nonoperating revenues for impact fees totaled \$864,702 during 2006, an increase of \$293,467 as compared to impact fees of \$571,235 during 2005. Assessment expense in 2006 was \$477,576 compared to \$237,551 in 2005, an increase of \$240,025. The increase is mostly due to the payments for Jordanelle water which increased \$214,315 from the prior year.

In comparing 2005 with 2004, the following items should be noted:

Nonoperating revenues for impact fees totaled \$571,235 during 2005, a decrease of \$5,971 as compared to impact fees of \$577,206 during 2004. The increase in the District's net assets for 2005 was \$468,416 compared to an increase in 2004 of \$531,840. All other revenues and expenses are comparable between fiscal years 2005 and 2004.

Capital Asset and Debt Administration

At June 30, 2006, the majority of the District's capital assets are water stock (\$6,827,114). The District spent \$32,000 and \$112,490 on the purchase of water stock during 2006 and 2005, respectively. Also, the District is obligated to pay for a portion of the Deer Creek Project, which shows in the financial statements as a long-term liability (see Note 5 in the notes to the basic financial statements).

Economic Factors and Next Year's Budget and Rates

The District prepared its 2007 budget anticipating nominal overall growth. The District plans to keep impact fees and tax rates about the same while using some of its unrestricted net assets. The District has budgeted to purchase more water shares.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Secretary of the Board of the Metropolitan Water District of Orem at P.O. Box 223, Orem, Utah 84059-0223.

METROPOLITAN WATER DISTRICT OF OREM STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

June 30, 2000 and 2003	2006	2005
ASSETS	· · · · · · · · · · · · · · · · · · ·	
Current Assets:	. 4	
Cash and investments	\$ 1,398,711	\$ 912,223
Accounts receivable from other governments	391,589	333,620
Property tax receivable	129,420	121,604
Total current assets	1,919,720	1,367,447
Capital Assets:		
Water stock, at cost	6,827,114	6,795,114
Equipment	9,179	7,862
Accumulated depreciation of equipment	(7,831)	(7,570)
Net capital assets	6,828,462	6,795,406
Total assets	8,748,182	8,162,853
LIABILITIES		
Current Liabilities:		
Accounts payable	303,429	284,631
Accrued liabilities	665	665
Deferred property tax revenue	126,422	118,456
Current portion of contract payable	6,424	6,424
Total current liabilities	436,940	410,176
Long-Term Liabilities:		
Contract payable, net of current portion	<u>140,061</u>	146,485
Total liabilities	577,001	556,661
NET ASSETS		
Invested in capital assets, net of related debt	6,688,401	6,648,921
Unrestricted	1,482,780	957,271
		· · · · · ·
Total net assets	<u>\$ 8,171,181</u>	\$ 7,606,192

METROPOLITAN WATER DISTRICT OF OREM STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2006 and 2005

	2006	2005
Operating Personucci		
Operating Revenues: Water treatment revenue		₾ 4 00E 44E
Water quality study revenue	\$ 1,0 60,522 13,159	\$ 1,035,115 13,179
Water rental	4,150	4,393
Total operating revenues	1,077,831	1,052,687
Operating Expenses:		
Assessments	477,576	237,551
Salaries	13,678	13,614
Water treatment expense	1,060,522	1,035,115
Water rights study expense	13,159	13,179
Engineering fees	1,800	17,122
Other expenses	9,475	7,933
Total operating expenses	1,576,210	1,324,514
Operating Loss	(498,379)	(271,827)
Nonoperating Revenues (Expenses):		
Property taxes and fees	147,187	150,554
Interest income	51,479	18,456
Intergovernmental:		
Impact fees from Orem City	864,702	571,235
Total nonoperating revenues (expenses)	1,063,368	740,245
Change in Net Assets	564,989	468,418
Net Assets at Beginning of Year	7,606,192	7,137,774
Net Assets at End of Year	\$ 8,171,181	\$ 7,606,192

METROPOLITAN WATER DISTRICT OF OREM STATEMENTS OF CASH FLOWS

Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:	•	
Collections from customers	\$ 1,019,862	\$ 1,054,520
Payments to suppliers for goods and services	(1,543,473)	(1,273,733)
Payments to employees for services	(13,678)	(13,309)
Net cash used by operating activities	(537,289)	(232,522)
Cash Flows from Noncapital Financing Activities		
Collection of property taxes	147,337	148,525
Cash Flows from Capital and Capital-Related Financing Activities:		
Purchase of water stock	(32,000)	(112,490)
Purchase of office equipment	(1,317)	(319)
Impact fees received from Orem City	864,702	571,285
Principal payments on contract payable	(6,424)	(14,638)
Net cash provided by capital and		
capital-related financing activities	824,961	443,838
Cash Flows from Investing Activities:		
Interest received on investments	51,479	18,454
Change in Cash and Cash Equivalents	486,488	378,295
Cash and Cash Equivalents at Beginning of Year	912,223	533,928
Cash and Cash Equivalents at End of Year (Displayed		
as cash and investments on the statements of net assets)	\$ 1,398,711	\$ 912,223
Supplemental Information:		

Supplemental Information:

For cash flow reporting, cash and cash equivalents include amounts in demand deposits, investments in the Utah Public Treasurers' Investment Fund, as well as short-term investments with a maturity date within three months of the date acquired by the District.

A reconciliation of cash flows from operating activities to operating loss follows:

Net cash used by operating activities	\$	(537 ,28 9)	\$ (232,522)
Depreciation		(261)	(27)
Changes in operating assets and liabilities:			
Accounts receivable		57,969	(1,833)
Accounts payable		(18,798)	 (37,140)
Accrued liabilities		<u> </u>	 (305)
Operating loss	_\$_	(498,379)	\$ (271,827)

Note 1. <u>Significant Accounting Policies</u>

The accounting policies of Metropolitan Water District of Orem (the District) conform to accounting principles generally accepted in the United States of America applicable to local governmental units. The following is a summary of the more significant policies.

Reporting Entity – Metropolitan Water District of Orem is a local governmental unit organized as a special service district. The District was organized on August 19, 1935, to manage the water needs of the City of Orem. The District is not a component unit of another entity and has no component units.

The District purchases water shares of irrigation and canal companies. The District then provides water to the City of Orem. The District also rents water-use rights on an annual basis to customers.

Basis of Accounting – The District records revenues and expenses using the accrual basis of accounting. The District operates as an enterprise fund, which accounts for activities in a manner similar to private business where the Board has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability. The District applies all applicable private-sector guidance in accounting and reporting for its operations to the extent that those standards do not conflict with or contradict guidance of governmental standards.

Accounts Receivable – Accounts receivable consist of amounts due to the District from Utah County (property taxes) and from the City of Orem. The District has not established an allowance for uncollectible accounts, as it deems all amounts to be collectible.

<u>Water Stock</u> – The District has purchased water stock in various irrigation companies. The water stock is recorded at cost.

<u>Equipment</u> – Purchased equipment is stated at cost. Provision for depreciation of equipment is provided over the estimated useful lives of the assets using primarily the straight-line method. Estimated useful lives are as follows:

Furniture and equipment 7 Years Computer equipment 5 Years

<u>Deferred Revenue</u> – The annual water rental fees are recognized as revenue as they are earned over the irrigation service period that runs from April through October. Water rental fees received but not earned are recorded as deferred revenue.

Taxes are levied each January 1 and a receivable for the levied amount is recorded. Property taxes are recorded as revenue in the year for which the taxes are levied. Accordingly, taxes as levied on January 1 are deferred.

Note 2. Cash and Investments

<u>Cash</u> – The District considers cash to be demand deposits. The District's carrying amount of cash is \$9,470 and the bank balance is \$314 at June 30, 2006, all of which is covered by federal depository insurance. On the statement of net assets the cash is shown with the investments as a single line in the amount of \$1,398,711.

<u>Investments</u> - District investments at June 30, 2006, consist of the following:

		Maturities	
Investment Type	Fair Walar	Less Than	Credit
Investment Type	Fair Value	1 Year	<u>Rating</u>
•		•	
State of Utah Public Treasurers'			
Investment Fund	\$ 1,389,241	\$ 1,389,241	Unrated

<u>Credit Risk</u> – Credit quality can be a depiction of potential variable cash flows and credit risk. The District does not have a formal investment policy that limits its investment choices in regard to credit quality ratings.

<u>Custodial Credit Risk</u> – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk in regard to the custody of the District's investments.

<u>Concentration of Credit Risk</u> – The District places no limit on the amount it may invest in any one issuer. All of the District's investments are invested in the Utah Public Treasurers' Investment Fund.

Note 3. <u>Capital Assets</u>

Capital asset activity for the year ended June 30, 2006, was as follows:

•	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated: Water shares	\$6,795,114	\$ 32,000	\$ -	\$6,827,114
Captial assets being depreciated:			•	
Equipment	7,862	1,317		9,179
Accumulated Depreciation:			· · · · · · · · · · · · · · · · · · ·	
Equipment	(7,570)	(261)		(7,831)
Total capital assets being				
depreciated, net	292	1,056	<u> </u>	1,348
Total capital assets, net	\$6,795,406	\$ 33,056	\$ -	\$6,828,462

Water stock, recorded at cost, consists of the following at June 30, 2006 and 2005:

·	2006	2005
Provo Reservoir Water Users Company	\$ 1,822,179	\$ 1,822,179
Provo Bench Canal/Irrigation Company	4,280,273	4,248,273
Provo River Water Users Association	539,064	539,064
Dixon Irrigation Company	96, 608	96,608
Lake Bottom Irrigation Company	88, 990	88,9 90
	\$ 6,827,114	\$ 6,795,114

Note 4. Contract Payable

A schedule of liabilities for the year ended June 30, 2006, is as follows:

	Beginning		Ending	Due within	
	Balance	Additions Deletions	Balance	One Year	
Contract payable	\$ 152,909	\$ (6,424)	\$ 146,485	\$ 6,424	

A contract payable is due to Provo River Water Users Association for the Deer Creek Construction Project. The District's share of the obligation is in proportion to the water shares currently owned by the District in the Provo River Water Users Association. The current rate for payments on the obligation is \$2.85 per share per annum; the obligation is non-interest bearing.

Note 4. Contract Payable (Continued)

The debt service requirements on the contract payable at June 30, 2006, are as follows:

Years ending	Annual
June 30,	Payment
<u> </u>	
2007	\$ 6,424
2008	6,424
2009	6,424
2010	6,424
2011	6,424
2012-2016	32,120
2017-2021	32,120
2022-2026	32,120
2027-2030	18,005
Total	\$ 146,485

Note 5. Related Party Transactions

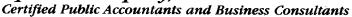
The District owns water shares and pays annual assessments to the irrigation companies referred to in Note 3. The District is also the sole owner of Dixon Irrigation Company. In lieu of paying an annual assessment to Dixon Irrigation Company, the District pays the expenses of Dixon Irrigation. Amounts paid by the District on behalf of the Dixon Irrigation Company totaled \$6,278 and \$6,449 for the years ended June 30, 2006 and 2005, respectively.

Note 6. Risk Financing

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered, with the exception of liability insurance that the Board has deemed unnecessary, by commercial insurance purchased from independent third parties.

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE

Squire & Company, PC





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Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

Board of Directors
Metropolitan Water District of Orem

We have audited the financial statements of the Metropolitan Water District of Orem as of and for the year ended June 30, 2006, and have issued our report thereon dated August 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, and the Board and is not intended to be and should not be used by anyone other than these specified parties.

Aguin & Company, PC

August 28, 2006

Squire & Company, PC Certified Public Accountants and Business Consultants



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Independent Auditor's Report on Legal Compliance in Accordance with the State of Utah Legal Compliance Audit Guide

Board of Directors Metropolitan Water District of Orem

We have audited the financial statements of the Metropolitan Water District of Orem for the year ended June 30, 2006, and have issued our report thereon dated August 28, 2006. The District received no major state assistance programs from the State of Utah.

Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Cash Management
Purchasing Requirements
Other General Compliance Issues
Impact Fees

Truth in Taxation Budgetary Compliance Special Districts

Management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with certain requirements referred to above, which are described in the letter to management.

In our opinion, Metropolitan Water District of Orem complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

August 28, 2006

Again & Company, PC

Squire & Company, PC Certified Public Accountants and Business Consultants



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Letter to Management

Board of Directors
Metropolitan Water District of Orem

In planning and performing our audit of the financial statements of Metropolitan Water District of Orem for the year ended June 30, 2006, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 28, 2006, on the financial statements of Metropolitan Water District of Orem. Reportable conditions and reportable instances of noncompliance, if any, are included in our reports dated August 28, 2006, required by Government Auditing Standards and the State of Utah Legal Compliance Audit Guide.

We commend the Board for its active participation in the review and approval of District transactions, including trades of water stock, and for adopting the tentative and final budget for the 2005-2006 fiscal year prior to the end of the 2004-2005 fiscal year. We encourage the Board to continue its involvement. The following are opportunities we feel should be considered for strengthening District controls and improving accounting procedures:

<u>Three-Day Deposit Rule</u> – The State requires that public funds are deposited daily when receipts are significant and in no case should deposits be made more than three days after funds are received. Cash and checks are not always deposited within three days of receipt.

We recommend that cash be receipted on the same day received and deposited within three days of receipt as required by state law.

Views of responsible officials:

We appreciate the comment and recommendation. We will review this matter and make changes as needed.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We express our appreciation to District personnel for their assistance in the performance of the audit.

August 28, 2006